



# **Legislative Audit Division**

State of Montana

Report to the Legislature

December 2003

## **Performance Audit**

### **Management of State Government Airfare Purchases**

**General Services Division, Department of Administration  
State Agencies and the University System**

The General Services Division within the Department of Administration is statutorily responsible for purchasing and procurement of supplies and services for state government, including the university system.

This performance audit report provides information about state government airfare purchases and presents recommendations for improving purchasing practices and procedures. Recommendations include:

- ▶ Developing and implementing resources to assist state agencies in purchasing lower cost airfares.
- ▶ Increasing state agency use of the state purchasing card to increase agency purchasing options and reduce administrative airfare purchasing costs.
- ▶ Using the state purchasing card to obtain and analyze management information related to commercial airfare purchases.

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Members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, statistics, economics, political science, criminal justice, logistics, computer science, and engineering.

Performance audits are performed at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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December 2003

The Legislative Audit Committee  
of the Montana State Legislature:

This is our performance audit of state government airfare purchasing activities. This report provides information to the Legislature regarding state government and university system airfare purchases. Travel is an essential government activity, and commonly requires employees purchase and use commercial transportation to carry out duties necessary for accomplishing agency missions. The Department of Administration is responsible for procuring or supervising the procurement of goods and services for state government, and has delegated airfare purchasing responsibilities to agencies.

This report includes recommendations for improving the management of airfare purchases. The report also includes a recommendation for increasing use of the state purchasing card to increase purchasing options and reduce administrative costs.

We wish to express our appreciation to the Department of Administration, sampled agencies, and the university system for their cooperation and assistance during the audit.

Respectfully submitted,

*Signature on File*

Scott A. Seacat  
Legislative Auditor



# **Legislative Audit Division**

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## **Performance Audit**

# **Management of State Government Airfare Purchases**

**General Services Division, Department of Administration  
State Agencies and the University System**

Members of the audit staff involved in this audit were Jim Nelson and Kent Wilcox.



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## **Appointed and Administrative Officials**

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### **Department of Administration**

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Marvin Eicholtz, Administrator  
General Services Division

Cathy Muri, Administrator  
Administrative Financial Services Division

### **University System**

George M. Dennison, President  
The University of Montana

Dr. Geoffrey Gamble, President  
Montana State University

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### Introduction

The Legislative Audit Committee requested a performance audit of state travel practices. The Montana Department of Administration (DofA) is responsible for state procurement activities, and has delegated responsibility for travel purchases to state agencies. Since many travel expenditures, such as employee per diem and lodging are set by statute, administrative rule, and policy, audit scope was limited to agency purchases of commercial airfares.

Employee travel is essential to state government for coordinating government activities with other states and the federal government, enforcing state laws and regulations, providing employee training, and promoting Montana's economies and universities. State agencies, including the university system, spend approximately \$30 million annually traveling on official state business, including \$3 million for airfares.

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### State Government Average Airfare Cost is Higher than the Montana Average Airfare Cost

Analysis of a sample of roundtrip domestic airfares purchased by seven agencies indicated the agencies pay on average approximately \$53 more per airfare than the average cost of a Montana airfare for comparable flights. Analysis also indicated airfares purchased from travel agents cost 52 percent more than airfares purchased from discount ticket brokers or directly from airlines using e-commerce. Many agencies commonly use travel agents to obtain airfares, and some agencies rely almost exclusively on travel agents for airfare purchases. Consequently, the state may have incurred up to \$880,000 in additional costs by using travel agent services during fiscal year 2002.

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### The State Can Increase Management Controls Over Airfare Purchases

Agencies require supervisor approval for airfare purchases, ensuring travel is necessary for meeting agency goals and objectives. However, the state can increase controls to better manage and control airfare costs. Purchasing airfares is typically an incidental or occasional duty for state employees, and employees may not be knowledgeable about finding or identifying the lowest reasonable cost airfares. Determining and identifying the lower cost airfares can be a complex task, requiring the consumer to be knowledgeable about different airfare "products" offered, options that can affect

## Report Summary

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airfare prices, and other travel factors. However, the state provides employees with only limited guidance or information about purchasing airfares at the lowest reasonable cost.

Improving employee knowledge and understanding of the types of airfares “products” available, as well as other factors that affect airfare costs would help agency personnel identify more cost effective airfares, whether from travel agents or e-commerce vendors. We recommend the Department of Administration develop and implement programs to help agencies identify and obtain cost-effective airfares.

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### **Increasing Agency Use of the State Purchasing Card Increases Purchasing Options**

Many agencies continue to rely on direct bill purchasing payment methods to pay for airfares rather than using the state purchasing card (MasterCard). Direct bill purchasing generally requires an agency establish an account with a vendor. The direct bill payment method restricts agency airfare purchases to vendors, typically travel agents, with whom the agency has an established account. By increasing use of the purchasing card, agencies can increase purchasing options to include other travel agents, as well as e-commerce vendors.

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### **Using Purchasing Cards Can Reduce Administrative Costs**

Purchasing airfares with a purchasing card can also reduce an agency’s administrative costs. Direct bill payments requires a vendor to submit an invoice for purchases, which an agency must process and reconcile with purchases and previous vendor payments and then process a state warrant to pay the vendor. Since agencies may have multiple airfare purchases during a billing cycle, as well as use multiple vendors, agencies process multiple invoices and vendor payments, which increases administrative costs. Using purchasing cards, managers can approve purchases electronically while reviewing the purchases, and the state can issue a single monthly payment to the purchasing card vendor.

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### **Using Purchasing Cards Can Improve Management Information**

State government has limited management information about airfare purchases, such as airfare vendors, service fees, travel itineraries, and other factors that affect airfare costs. This information is useful for understanding agency travel needs and practices and can provide

valuable information for negotiating preferred airfare rates with vendors. State and university system accounting systems are not designed, and may not be the most effective system, for collecting airfare management information.

While purchasing card data may have limitations and may not be able to provide extensive information about trip itineraries or airfare changes, it can provide useful data to help DofA better understand current airfare purchasing activities and future management information needs. Additionally, using the purchasing card can increase agency purchasing options and reduce administrative costs that can reduce airfare costs. We recommend the Department of Administration direct state agencies to use the purchasing card for airfare purchases and obtain management information to improve airfare purchasing activities.



# Chapter I - Introduction

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## **OVERVIEW**

Travel is an essential government activity, necessary for promoting and protecting state interests. This chapter provides introductory and background information relating to state government and university system airfare purchases. This chapter also outlines our audit objectives and explains the organization of the report.

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## **Introduction**

The Legislative Audit Committee requested a performance audit of state travel practices. State employee travel is governed by statute, administrative rules, and state policy. The Montana Department of Administration (DofA) is responsible for state procurement of goods and services, and setting travel policy for state government. DofA has delegated to state agencies responsibility for arranging and procuring individual employee travel services.

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## **Audit Objectives**

We collected preliminary state travel practice and expenditure information, and subsequently narrowed audit scope to examination of state purchasing of commercial airfares for fiscal year 2002. We excluded lodging and per diem rates from our review because those rates are set by statute and policy. We also excluded rental car rates since the state has contracts with rental car vendors for in-state use.

Audit objectives were to:

- ▶ Examine whether state government purchases economical airfares.
- ▶ Identify areas for reducing state and agencies airfare costs.

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## **Travel is Essential for Operating State Government and the University System**

Travel is an essential activity for state government and the university system, and purposes vary widely, including:

- ▶ Coordinating program activities with other states and the federal government.

## Chapter I - Introduction

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- ▶ Promoting Montana's economies and universities.
- ▶ Continuing education to improve employees' knowledge and experience in their fields of expertise.
- ▶ Enforcing state laws and regulations.
- ▶ Research and education

State government and the university system spent \$29.2 million on travel during FY 2003, according to SABHRS, the state accounting system. Table 1 provides an overview of statewide travel expenditures.

**Table 1**  
**State Government and University System Travel Expenditures**

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b>State Government</b>			
In-state Travel	\$11,808,171	\$10,904,071	\$9,871,350
Out-of-State Travel	\$3,767,638	\$3,833,801	\$3,169,982
International Travel	\$59,416	\$55,158	\$43,395
Other Travel <sup>1</sup>	\$2,344,338	\$1,895,312	\$1,716,518
Subtotal	\$17,979,563	\$16,688,342	\$14,801,245
<b>University System</b>			
In-state Travel	\$3,128,754	\$3,301,707	\$3,417,349
Out-of-State Travel	\$7,164,877	\$7,720,889	\$8,142,291
International Travel	\$516,000	\$566,736	\$631,709
Other Travel <sup>1</sup>	\$2,508,685	\$2,812,528	\$2,256,338
Subtotal	\$13,318,316	\$14,401,860	\$14,447,687
<b>Total</b>	<b>\$31,297,879</b>	<b>\$31,090,202</b>	<b>\$29,248,932</b>

<sup>1</sup> Other travel includes motor pool, or travel expenses not classified as in-state, out-of-state, or international.

**Source: Compiled by the Legislative Audit Division from SABHRS data.**



### **Air Fares are a Significant State Travel Expense**

According to SABHRS data, in-state travel accounts for approximately 66 percent and out-of-state travel accounts for approximately 23 percent of all state government domestic travel expenditures. International travel, some motor pool expenses, and other miscellaneous travel expenses not classified as in-state or out-of-state travel account for the remaining 11 percent. Air travel expenditures are approximately 3 percent of all state agency in-state travel, but are approximately 50 percent of out-of-state travel expenditures.

Air travel is a significant travel expense, accounting for approximately 13 percent of all in-state and out-of-state travel expenditures. Table 2 provides information on domestic airfare expenditures for fiscal years 2001 through 2003. Domestic airfares are flights within the 50 states.

**Table 2**  
**State Domestic Commercial Airfare Expenditures**

	<b>FY01</b>	<b>FY02</b>	<b>FY03</b>
State Government Airfare Expenditures	\$1,973,809	\$1,891,331	\$1,457,510
Estimated University System Airfare Expenditures	\$1,410,401	\$1,573,169	\$1,364,489
Total Estimated Airfare Expenditures	\$3,384,210	\$3,464,500	\$2,821,999

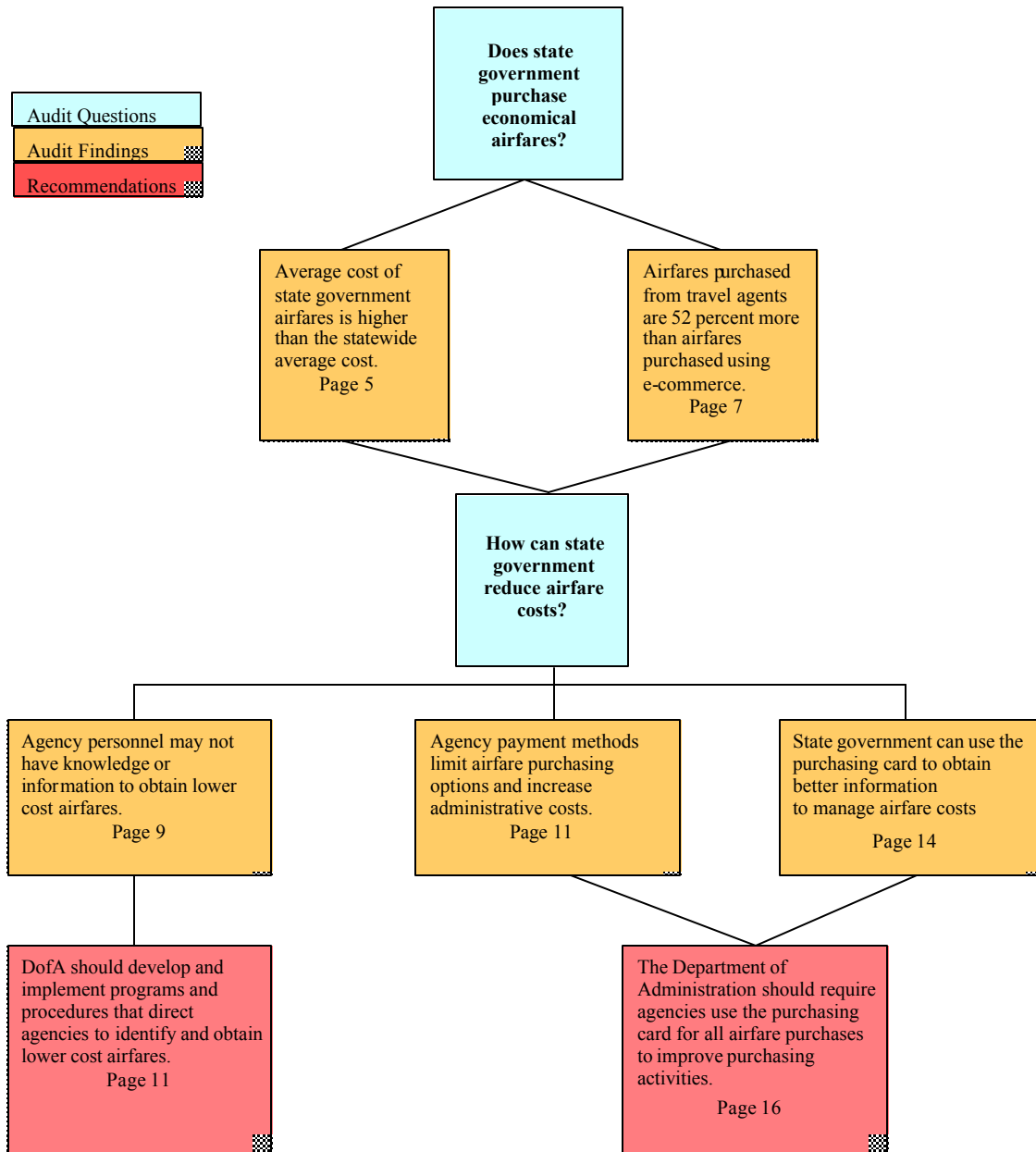
Note: The university system has not tracked airfare expenditure information separately from other travel expenditures. We estimated university system airfare expenditures as a percentage of all travel expenditures.

**Source: Compiled by the Legislative Audit Division from SABHRS data.**

### **Report Organization**

Chapter II presents recommendations for improving state and agency airfare purchasing practices and procedures. Figure 1 illustrates the organization of Chapter II.

**Figure 1**  
**Report Organization Overview**



# Chapter II - Improving State Government Purchases of Airfares

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## OVERVIEW

The average cost for airfares purchased by state agencies and the university system is significantly higher than the average cost for airfares originating in Montana. The state has not actively managed procurement of airfare purchases or fully developed tools to help ensure agencies purchase airfares at the lowest reasonable cost.

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## **Introduction**

Averaging is an accepted and widely used airfare cost comparison method used by both government and private sector organizations for examining and managing travel and airfare purchases. We reviewed a sample of state airfare purchases and obtained U.S. Department of Transportation (DOT) data to compare average airfare costs. The DOT collects and reports airfare cost information, including average costs, for cost comparisons among and within airfare markets. We stratified our sample data to assure sample populations included the same characteristics, such as flight origin, flight dates, economy class, roundtrip fares, unrestricted fares, and domestic flights (within the 50 states). We also examined state government airfare purchases to determine if agency practices affected costs.

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## **State Government Airfare Costs are Higher than the Montana Average Airfare Cost**

The average cost for airfares purchased by state government is higher than the average cost for all comparable airfares purchased. We randomly selected a sample of 85 roundtrip domestic airfares purchased by five state agencies, the University of Montana, and Montana State University. We used this information to identify the average cost of airfares purchased by state government. We compared this average cost with the average airfare cost for flights originating in Montana, based on U.S. Department of Transportation data. Table 3 summarizes our analysis.

## Chapter II - Improving State Purchases of Commercial Airfares

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**Table 3**  
**Comparison of Average Domestic Airfare Costs**  
**Fiscal Year 2002**

	Mean Cost	Median Cost
State Government	\$461.01	\$395.00
Montana	\$417.01	\$342.00
Difference	\$44.00	\$53.00

Note: Costs in this table do not include services fees.

**Source:** Compiled by the Legislative Audit Division from agency files and the U.S. Department of Transportation data.

We used two best estimate methods to analyze state government airfare costs. Our analysis indicated the mean, or average, cost and the median cost are significantly higher than the statewide average for roundtrip coach class airfares originating in Montana. The mean is the “average” cost for all airfares in the sample, while the median is the midpoint of all airfares. We used the median cost because it is much less sensitive in situations where there are a small number of extreme observations and is a better measure of a typical observation. We estimated state government purchased approximately 7,500 airfares during FY 2002. With state agencies paying on average \$44.00 more for an airfare, we estimate an additional cost to state government during FY 2002 of about \$331,000. Because of the volume of airfare purchases, state government should be able to obtain airfares at prices comparable to, if not lower, than the statewide average.

**Conclusion:** The average cost for airfares originating in Montana and purchased by state government is significantly higher than the average cost of all airfares with similar characteristics.

## Chapter II - Improving State Purchases of Commercial Airfares

Further analysis of state government airfare costs indicated differences depending on agency purchasing practices. Developments in the Internet and e-commerce in the last decade have significantly changed airfare purchasing options. Historically, most airfares were purchased from travel agencies. Consumers can now purchase airfares on the Internet directly from airlines and airfare brokers, often at reduced prices.

Audit work indicated state agencies primarily use two methods for purchasing airfares: travel agency purchases and e-commerce purchases (discount ticket brokers or directly from airlines using Internet websites). Table 4 presents the results from our review of state agency airfare purchases.

**Table 4**  
**Average State Government Costs for Domestic Airfare Purchases**  
**Fiscal Year 2002**

	Number of Purchases	Average Cost per Airfare	Average Service Fee	Average Total Cost Per Airfare	Percent of Total Airfare Expenditures
<b>Sampled Airfare Purchases</b>	85	\$461.01	\$21.60	\$482.61	100%
<b>Travel Agent Purchases</b>	56	\$491.54	\$25.73	\$517.26	66%
<b>Discount Broker or Direct Airline Purchase</b>	20	\$330.89	\$8.74	\$339.63	24%
<b>Vendor Type Unknown</b>	9	\$597.68	Not Available	\$597.68	10%

**Source: Compiled by the Legislative Audit Division from agency files.**

As Table 4 illustrates, the average cost for airfares purchased from travel agents was approximately \$177 (52 percent) more than the average cost for airfares purchased from discount ticket brokers or directly from airlines. This analysis indicates state agencies incurred approximately \$10,000 in additional costs for the sample items by purchasing airfares from travel agents rather than purchasing airfares

## Chapter II - Improving State Purchases of Commercial Airfares

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directly from airlines or discount brokers using e-commerce. Further analysis, extrapolating data to total state government domestic commercial airfare expenditures, indicates state agencies may have incurred up to \$880,000 in additional costs during FY 2002 by purchasing airfares using travel agents.

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### Travel Agents Provide Services

While airfares purchased from travel agents are significantly higher than airfares purchased from discount brokers or directly from airlines on average, that does not mean the state should not use travel agents. Travel agents may provide airfares competitive with those offered by other vendors. Additionally, travel agents provide a service to state agencies for a service fee, typically ranging from approximately \$20-40, which accounts for part of the cost difference. Services offered by travel agents include booking flights, arranging lodging accommodations, and making alternative arrangements if an agency changes travel plans. Conversely, agencies that procure airfares from discount brokers or directly from airlines can reduce or eliminate service fees, but may increase agency workload by having their personnel make travel arrangements. Agencies must consider both the airfare cost and related administrative costs when deciding whether to use travel agent services or purchase airfares from discount brokers or airlines.

**Conclusion: On average, airfares purchased by state government from travel agencies cost about 52 percent more than airfares purchased from discount brokers or directly from airlines.**

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### DofA is Responsible for All State Purchasing Activities

The Department of Administration (DofA) has delegated to agencies and the university system responsibility for purchasing airfares. However, sections 18-4-221 and 18-4-122, MCA, require DofA to procure or supervise the procurement of all supplies and services needed by the state, and to provide for increased economy in state procurement activities to maximize the purchasing value of public funds. Thus, while DofA can delegate purchasing activities, it retains responsibility for supervising and monitoring agency

## Chapter II - Improving State Purchases of Commercial Airfares

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purchasing. DofA could improve the state's ability to manage and control airfare expenditures and help agencies comply with state travel policy requiring agencies keep "transportation costs as low as possible" by providing more tools to help agencies procure lower cost airfares. Examples of tools might include readily accessible guidelines for purchasing airfares or a "travel cost calculator" to help agency personnel identify the most cost-effective airfare.

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### **The State Can Increase Management Controls Over Airfare Purchasing**

Agencies require supervisor approval for all airfare purchases, ensuring travel is necessary for meeting agency goals and objectives. However, management controls that increase state government and agencies' ability to identify, manage, and control airfare costs are limited. We identified three primary areas for improvement:

- ▶ Increasing agency personnel knowledge of airfare purchasing.
- ▶ Increasing agency purchasing options by expanding payment methods used by agencies.
- ▶ Collecting statewide management information about airfare purchases and procurement practices.

The following sections discuss these areas in more detail and provide recommendations to reduce airfare costs.

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### **State Personnel May Not Have Information to Help Purchase Lower Cost Airfares**

Agencies are responsible for procuring airfares with limited guidance or information about purchasing airfares, and employees may have limited knowledge or experience to purchase the most economical tickets. File reviews indicated some agencies purchase airfares exclusively or primarily from travel agents. Overall, 66 percent of the state airfares in our sample were purchased from travel agents. However, new Internet technologies and the rise in e-commerce have significantly changed airfare purchasing options, and opportunities to purchase lower cost airfares.

Additionally, employee knowledge about procuring the most cost-effective airfares can vary, depending in part on agency practices for purchasing airfares. Some agencies have delegated airfare purchases to specific employees, while other agencies leave that responsibility

## Chapter II - Improving State Purchases of Commercial Airfares

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to the traveling employee. However, purchasing airfares appears to be an incidental or occasional duty for state employees. As one employee stated, purchasing airfares was learned on the job, which resulted in higher costs for airfares during the learning process.

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### **Informed Consumers Can Reduce Travel Expenses**

The basic premise for economical purchasing and general travel theory is an informed consumer can purchase airfares at lower costs. However, determining and identifying the lower cost airfares can be a complex task, requiring the consumer to be knowledgeable about different airfare “products” offered, options that can affect airfare prices, and other travel factors. For example, an agency can typically purchase a restricted airfare that is non-refundable or non-transferable at a lower cost than an unrestricted airfare. However, if agency travel plans are likely to change, an unrestricted airfare may be less costly because the agency can obtain a refund or use the airfare later without penalties.

Because of the wide variety of airfare “products” and the multiple airfare purchasing options available, agency personnel need information or assistance to obtain airfares at the lower costs. While DofA has delegated responsibility for purchasing airfares to state agencies and the university system, the department retains responsibility for “supervising” agency procurement activities. The department has provided agencies with informational articles about airfare purchasing options and developed a travel website for state employees. The website includes state travel policy information and a list of vendors that provide lodging at the state rate. However, the website does not provide information about purchasing the most economical airfares.

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### **DofA Can Help Agencies Obtain More Cost-Effective Airfares**

Providing employees with information about arranging and purchasing travel is essential to helping manage and control travel costs. Other states have developed websites with extensive information about official travel, including how to calculate the lowest logical airfares, vendors, and other travel requirements. For example, an on-line “calculator” that factors in employee wages, per



## Chapter II - Improving State Purchases of Commercial Airfares

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diem, and lodging costs, as well as airfares would help agencies ensure they are obtaining the most cost-effective airfares.

To improve agency and employee awareness of options for reducing airfare costs, DofA could develop and implement programs and procedures focused on directing agencies to obtain the lowest logical airfares. One option is to develop a training program for agency personnel. Another option is to enhance the department's existing travel website to provide more comprehensive information for arranging and procuring airfares at the lowest logical cost.

### **Recommendation #1**

**We recommend the Department of Administration develop and implement programs and procedures to assist agencies in identifying and obtaining more cost-effective airfares.**

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### **Most Agencies Continue to Use Less Efficient Payment Methods**

State agencies can also modify purchasing procedures to increase options for purchasing lower cost airfares and to reduce administrative costs. While some state agencies have expanded their use of the state purchasing card (MasterCard), some agencies or agency personnel continue to use direct bill payment vouchers to pay for airfares, rather than use the purchasing card. Direct bill payments vouchers requires a vendor to submit an invoice, which the agency then processes and pays with a state warrant. Although the purchasing card is available to all agencies, only 41 percent of the sampled airfares were purchased using the card. Forty-two percent of the airfares in our sample were purchased using direct bill payment vouchers or payment vouchers to reimburse employees for airfare purchases. The remaining 17 percent of the airfares were purchased using other methods or we were unable to determine how an agency purchased the airfare. Two of the agencies in our sample relied almost exclusively on direct bill payment vouchers to purchase airfares.

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### **Direct Bill Payment Vouchers Restrict Airfare Purchasing Options**

Direct bill payment vouchers restrict agency airfare purchases to vendors, typically travel agents, with whom an agency has an

## Chapter II - Improving State Purchases of Commercial Airfares

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established account. To increase the opportunities for purchasing airfares from discount brokers and airlines, agencies will need to implement or increase use of the state purchasing card for airfare purchases.

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### **Using the Purchasing Card Can Reduce Administrative Costs**

In addition to increasing purchasing options, agencies can simplify the payment process and reduce administrative costs. The direct bill payment voucher system requires additional steps for reconciling, processing, and paying for purchases. For example, a vendor may submit multiple invoices to an agency for purchases over the course of a monthly accounting cycle. This requires the agency to reconcile each invoice against purchases and payments and process separate state warrants to pay each invoice. We also noted agencies commonly purchase airfares from multiple vendors, which requires processing separate vouchers and warrants for each vendor. By using the purchasing card, managers or supervisors can approve all purchases electronically, and the state pays the purchasing card vendor with a single monthly warrant for all agency purchases, eliminating the need for agencies to process and mail multiple state warrants to pay for airfare purchases.

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### **Increased Use of Purchasing Cards will Increase the Rebate Earned by the State**

Increasing use of purchasing cards for airline purchases increases the rebate the state earns from the vendor that issues the purchasing card. Under the current purchasing card contract, the state earns a 10 basis point rebate (0.1 percent) for aggregate purchases under \$25 million, and a 25 basis point rebate (0.25 percent) for aggregate purchases between \$25 million and \$50 million. The state also earns rebate points for timely payments. Table 5 presents information on statewide purchases with the state purchasing card and rebates earned.

## Chapter II - Improving State Purchases of Commercial Airfares

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**Table 5**  
**Purchasing Card Purchases and Rebates Earned**  
**Fiscal Years 2001-2003\***

	Purchase Volume	Rebate Earned
<b>FY 2001</b>	\$18.5 million	\$21,278
<b>FY 2002</b>	\$22.5 million	\$32,005
<b>FY 2003</b>	\$24.5 million	\$35,241

\* Program fiscal year from September 1 to August 30

**Source: Compiled by the Legislative Audit Division from DofA data.**

DofA has assessed agencies a service fee of \$1 per card per month to cover program costs. However, in 2003 the department reduced the service fee by 50 percent because the rebate incentives have covered a greater portion of the program's costs. Higher future rebates could further reduce agency fees and, potentially, be directed back to agencies to reduce expenditures.

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### **Purchasing Cards Increase Agency Purchasing Options and Lower Costs**

The Internet and e-commerce have increased the options for purchasing commercial airfares. However, the state must also modify its traditional payment methods to take advantage of these options. The state purchasing card offers agencies another payment option for purchasing airfares, as well as opportunities to reduce administrative costs. Recognizing the benefits and convenience for employees and vendors that result from using state travel or purchasing cards, other states have implemented similar purchasing card programs. For example, Colorado now mandates employees with specified minimum travel requirements obtain and use state travel cards for official travel-related expenses.

## Chapter II - Improving State Purchases of Commercial Airfares

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**Conclusion:** State government can increase its use of the Internet and e-commerce and reduce administrative costs by utilizing the state purchasing card for airfare purchases.

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### State Government Has Limited Management Information About Airfare Purchases

State government has limited management information about airfare purchases, such as airfare vendors, travel itineraries, service fees, itinerary changes, and other factors that affect airfare costs. State government can obtain airfare expenditure data from SABHRS and Banner, the state and university system accounting systems. However, accounting systems are not designed, and may not be the most effective system, for collecting airfare management information. Additionally, the university system, historically, has tracked only general travel expenditures without distinguishing among different types of travel expenditures, such as lodging, airfares, and meals, which further limits the ability of the state to extract reliable airfare data for management purposes.

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### Purchasing Information is Essential to Managing Airfare Costs

Increasing economy of purchasing activities requires a comprehensive understanding of agency purchasing practices and activities. An industry survey of private and public sector organizations indicated private sector firms are improving management information systems to obtain better data about organization travel practices and activities.

According to the Society of Government Travel Professionals 2002 annual report, 25 of the 43 states and Canadian provinces responding to their survey reported having established travel management programs, and 29 states and provinces have centralized travel agencies under contract, including contracts with either sole or multiple travel agency contracts.

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### State Government Can Use the Purchasing Card to Obtain Management Information

State government can effectively and efficiently use the state purchasing card to obtain airfare management information to help control and reduce airfare costs. Other states and private sector organizations have realized benefits from collecting and analyzing airfare purchasing, as well as other travel expenditures. Benefits include:

## Chapter II - Improving State Purchases of Commercial Airfares

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- ▶ Collecting data useful for negotiating airfare purchasing agreements.
- ▶ Collecting data to negotiate travel agent services. Some states negotiate for reduced travel agent service fees in return for volume purchases. States may contract with travel agents for specific services such as guaranteed lowest airfares or for collecting and reporting travel management information.
- ▶ Monitoring compliance with travel policies and potential vendor contracts.
- ▶ Maintaining a more complete record of all employee travel-related charges and credits.

Ultimately, management information can result in significant cost savings. For example, Colorado reported an 11 percent cost saving/cost avoidance for all state travel expenditures for fiscal year 2001 from the previous fiscal year. Colorado also contracts for airfares and reported that their average contracted airfare was 16 percent less than non-contract airfares purchased.

While purchasing cards can be an effective method for collecting airfare data, system capabilities may limit the level of detailed data available. For example, detailed information about trip itineraries or travel change data may not be available. While some states have implemented more comprehensive travel management systems to gain additional management data, Montana's purchasing card system would provide useful data and help DofA determine future management information needs related to airfare purchasing.

**Conclusion: State government can use the state purchasing card to obtain management information essential to analyzing and managing airfare purchasing activities.**

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### DofA is Examining Potential Changes to State Travel Practices

The department has examined potential for contracting for airfares previously, but determined it was not feasible at the time. DofA is re-examining the potential for contracting with airlines and invited a travel program manager from another state to help the department explore options for improving management of state travel activities.

## Chapter II - Improving State Purchases of Commercial Airfares

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### Summary

Mandating use of the state purchasing card for airfare purchases would provide multiple benefits to the state, including:

- ▶ Reducing administrative costs.
- ▶ Increasing airfare purchasing options.
- ▶ Providing data for managing airfare costs.

Ultimately, these benefits would help state government better manage airfare purchases and reduce travel expenditures.

### **Recommendation #2**

**We recommend the Department of Administration:**

- A. Direct state agencies to use the state purchasing card for airfare purchases.**
- B. Use the state purchasing card to obtain and analyze management information to improve airfare purchasing activities.**

# Appendix A

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## Audit Methodology

To meet the audit objectives, we:

- ▶ Interviewed agency managers and staff.
- ▶ Interviewed state travel managers in other states and representatives of major air carriers about contracting for airfares.
- ▶ Reviewed professional literature from the travel industry and other sources, such as the Society of Government Travel Professionals.
- ▶ Reviewed airfare contracts between other state governments and airlines.

We reviewed information and literature from the travel industry and other sources. We also reviewed U.S. Department of Transportation (DOT) commercial airfare data. The DOT collects data about domestic air travel from commercial air carriers including itinerary fares, originating airports, fare class, and coupon type.

We selected a random sample of airfares from five state agencies and two units of the university system, and collected data related to:

- ▶ Departure and destination information.
- ▶ Dates of departure and return flights.
- ▶ Airfare vendors (e.g., travel agent, direct purchase from airlines, and discount airfare vendors).
- ▶ Airfare costs.
- ▶ Vendor administrative or service fees.
- ▶ Penalties or charges for changes to airfares.

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## Data Limitations

The availability of information about state travel limited analysis of state airfare purchases, including university system purchases. Aggregate airfare purchase information is tracked on SABHRS, the state accounting system, for accounting purposes only. More detailed information such as departure-destination locations, costs

## Appendix A

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for individual airfares, service fees, vendors and related information necessary for a full analysis of travel practices is not always available. Additionally, since agencies retain documentation of travel expenditures for accounting purposes only, more detailed travel information is not always documented in agency files.

A more comprehensive analysis was further limited because university system accounting methodologies only report travel expenditures by major categories, without distinguishing among different types of travel expenditures, such as lodging, airfares, or meal per diem. Consequently, we had to make best estimates about university system travel expenditures using assumptions based on state government agency expenditures.



# Appendix B

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## Areas For Further Study

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During the audit, we identified two areas that warrant consideration for future audit work.

- ▶ Examination of agency use of purchasing cards to reduce administrative costs. Chapter II discusses the potential for agencies to reduce administrative costs by using the state purchasing card (MasterCard) for airfare purchases. Audit work suggests the state could further reduce purchasing administrative costs by increasing purchasing card use for other goods and services commonly purchased by state agencies and the university system. A performance audit of state agency use of purchasing cards could quantify the cost savings and increased contractor rebates from increased use of state purchasing cards.
- ▶ Examination of state travel cash advance policies and practices. State employees may obtain cash advances for planned travel, and some employees who travel frequently have permanent cash advances. A preliminary review of SABHRS information indicated the state issued almost \$2.7 million in travel advances during FY2003. Travel advances increase agency administrative costs, requiring processing for travel advances and reconciling advances with travel expense vouchers that employees submit after travel. Additionally, travel advances reduce interest earnings for funds that would otherwise be in the state treasury. A preliminary review also indicated some employees received travel advances of less than \$50.00, which is in non-compliance with state travel policy. A performance audit would analyze state travel advance policies and practices and amounts of travel advances. Audit work could identify and analyze alternatives to cash advances and quantify potential costs savings and increased investment income.



## **Agency Responses**



DEPARTMENT OF ADMINISTRATION  
DIRECTOR'S OFFICE



JUDY MARTZ, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

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PO BOX 200101  
HELENA, MONTANA 59620-0101

November 12, 2003

Jim Pellegrini  
Deputy Legislative Auditor  
Legislative Audit Division  
PO Box 201705  
Helena, MT 59620-1705

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NOV 13 2003  
LEGISLATIVE AUDIT DIV.

Dear Mr. Pellegrini:

We have reviewed the recommendations pertaining to the performance audit of the State Government Airfare Purchases dated October 2003. Our responses are as follows:

Recommendation #1

We recommend the Department of Administration develop and implement programs and procedures to assist agencies in identifying and obtaining cost-effective airfares.

Response:

We concur. The Department of Administration will put instructions on the travel website that list the various internet travel services for agencies to use when booking travel along with travel tips to receive the lowest fares. This will be completed by March 1, 2004.

Recommendation #2

We recommend the Department of Administration:

- A. Direct state agencies to use the state purchasing card for airfare purchases.
- B. Use the state purchasing card to obtain and analyze management information to improve state airfare purchasing activities.

Response:

- A. We concur. The Department of Administration will issue a directive requiring agencies to use the state purchasing card for airfare and other travel purchases.

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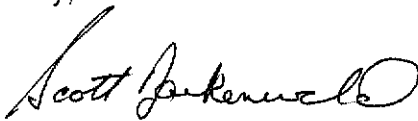
Jim Pellegrini  
November 12, 2003  
Page 2

- B. We concur. If we are successful with A, then the management information provided by the purchasing card will be useful to improve state airfare purchasing activities.

This recommendation will be implemented by March 1, 2004.

We appreciate the opportunity to work with your staff on these issues.

Sincerely,



SCOTT DARKENWALD  
Director

- c: Marvin Eicholtz, GSD  
Cathy Muri, AFS  
Chuck Swysgood, Budget Director



Office of the President  
The University of Montana  
Missoula, Montana 59812-3324

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5 November 2003

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NOV 07 2003

**LEGISLATIVE AUDIT DIV.**

Mr. Scott A. Seacat  
Legislative Auditor  
Legislative Audit Division  
Room 135 State Capitol  
P. O. Box 201705  
Helena, MT 59620-1705

Dear Mr. Seacat:

We compliment the Legislative Audit staff for their cooperation and completion of State Government Airfare Purchases Performance Audit. At The University of Montana, we constantly strive to conduct our airfare purchases in the most effective and efficient manner. We have made great strides in this effort. During Fiscal Year 2003, The University of Montana campuses made 73 percent of the airline purchases on the State purchasing card, thus increasing our administrative efficiencies and reducing costs.

We appreciate the cooperative efforts of the audit team and thank those involved for their assistance. We remain committed to improving our financial controls and efficiencies for The University of Montana.

Sincerely,

George M. Dennison  
President

c: R. Durringer, Vice President for Administration and Finance  
S. Stearns, Commissioner of Higher Education

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November 12, 2003

Mr. Scott A. Seacat  
Legislative Auditor  
Legislative Audit Division  
State Capitol, Room 135  
P.O. Box 201705  
Helena, MT 59620-1705

Dear Mr. Seacat:

Montana State University would like to thank the Legislative Audit Division in its efforts in regards to the performance audit of the State of Montana Airfare Purchases.

MSU would like to participate in the Department of Administration's response to the audit recommendations. We believe we can offer clarification on travel situations which benefit from the use of travel agents. For example, the conclusion that state government airfare purchases cost 52 percent more than airfares purchased from discount brokers or directly from airlines does not consider the value of consideration such as flight flexibility and administrative costs of research.

We agree that in some cases purchasing card transactions minimize administrative costs in addition increasing to the rebate earned by the state. However, purchasing airfares online will not necessarily net a financial benefit because of the inflexible nature of airfares purchased online from discount brokers.

Appendix A states that LAD's analysis was limited because the university system accounting methodologies only report travel expenditures by major categories. As a point of clarification, MSU is in compliance with the Department of Administration's accounting requirements.

Sincerely,

A handwritten signature in black ink, appearing to read "Geoffrey Gamble".

Geoffrey Gamble  
President